August 21, 1995	Postal Service's Answering Brief [*see* 39 CFR 3001.115(c)].
September 5, 1995	Petitioners' Reply Brief should Petitioner choose to file one [*see* 39 CFR 3001.115(d)].
September 12, 1995	Deadline for motions by any party requesting oral argument. The Commission will schedule oral argument only when it is a necessary addition to the written filings [*see* 39 CFR 3001.116].
October 24, 1995	Expiration of the Commission's 120-day decisional schedule [*see* 39 U.S.C. 404(b)(5)].

[FR Doc. 95–16979 Filed 7–11–95; 8:45 am]

BILLING CODE 7710–FW–P

SECURITIES AND EXCHANGE COMMISSION

[Release Nos. 33–7193; 34–35938; File No. 265–20]

Advisory Committee on the Capital Formation and Regulatory Processes

AGENCY: Securities and Exchange Commission.

ACTION: Notice of meeting.

SUMMARY: This is to give notice that the Securities and Exchange Commission Advisory Committee on the Capital Formation and Regulatory Processes will meet on July 26, 1995 in room 1C30 at the Commission's main offices, 450 Fifth Street, N.W., Washington, D.C., beginning at 10:00 a.m. The meeting will be open to the public, and the public is invited to submit written comments to the Committee.

ADDRESSES: Written comments should be submitted in triplicate and should refer to File No. 265–20. Comments should be submitted to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

FOR FURTHER INFORMATION CONTACT: David A. Sirignano, Committee Staff Director, at 202–942–2870; Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549.

SUPPLEMENTARY INFORMATION: In accordance with section 10(a) of the Federal Advisory Committee Act, 5 U.S.C. App. 10a, notice is hereby given that the Committee will meet on July 26, 1995 in room 1C30 at the Commission's main offices, 450 Fifth Street, NW., Washington, D.C., beginning at 10:00 a.m. The meeting will be open to the public.

The Committee was formed in February 1995, and its responsibilities include advising the Commission regarding the informational needs of investors and the regulatory costs imposed on the U.S. securities markets.

The purpose of this meeting will be to discuss the progress of the Committee's work, to continue the discussion of possible alternative approaches to the capital formation and regulatory processes, as well as to discuss general organizational matters.

Dated: July 6, 1995.

Jonathan G. Katz,

Secretary.

[FR Doc. 95–16995 Filed 7–11–95; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–35930; International Series Release No. 824, File No. SR–CBOE–95–20]

Self-Regulatory Organizations; Order Approving a Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1 and 2 to the Proposed Rule Change by the Chicago Board Options Exchange, Inc., Relating to the Listing of Options and Long-Term Options on the CBOE Latin 15 Index and Long-Term Options on a Reduced-Value CBOE Latin 15 Index

June 30, 1995.

I. Introduction

On March 20, 1995, the Chicago Board Options Exchange, Inc. (''CBOE'' or ''Exchange'') submitted to the Securities and Exchange Commission (''Commission''), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'') [1] and Rule 19b–4 thereunder,[2] a proposed rule change to provide for the listing and trading of index options on the CBOE Latin 15 Index (''Latin 15'' or ''Index''). Notice of the proposal appeared in the **Federal Register** on April 13, 1995.[3] No comment letters were received on the proposed rule change. The Exchange subsequently filed Amendment No. 1 to the proposed rule change on June 6, 1995,[4] and Amendment No. 2 on June 13, 1995.[5] This order approves the Exchange's proposal, as amended.

II. Description of Proposal

A. General

The CBOE proposes to list for trading options on the Latin 15 Index, a new securities index developed by the CBOE. The Latin 15 Index consists of fifteen components, including American Depositary Receipts (''ADRs''), American Depositary Shares (''ADSs''), and closed-end country funds from four Latin American countries: Argentina, Brazil, Chile, and Mexico.[6] The CBOE also proposes to list either long-term options on the full-value Index or long-term options on a reduced-value Index that will be computed at one-tenth of the value of the Latin 15 Index (''Latin 15 LEAPS'' or ''Index LEAPS'').[7] Latin 15 leaps will trade independent of and in addition to regular Index options traded on the Exchange,[8] however, as discussed below, for purposes of position and exercise limits, positions in Index LEAPS and regular Index options will be aggregated.

B. Composition of the Index

The Index was designed by the Exchange and is based on a combination of 12 ADRs and ADSs overlying Latin American securities, and the shares of three closed-end country funds that invest in Latin American securities. The shares of each of the components contained in the Index currently traded in the U.S. on the New York Stock Exchange (''NYSE'').

[1] 15 U.S.C. 78s(b)(1) (1988).

[2] 17 CFR 240.19b–4 (1994).

[3] *See* Securities Exchange Act Release No. 35573 (April 6, 1995), 60 FR 18862.

[4] In Amendment No. 1, as discussed more fully herein, the Exchange proposed certain maintenance standards for the Latin 15 Index. *See* Letter from Eileen Smith, Director, Product Development, Research Department, CBOE, to Brad Ritter, Senior Counsel, Office of Market Supervision (''OMS''), Division of Market Regulation (''Division''), Commission, dated June 7, 1995 (''Amendment No. 1'').

[5] In Amendment No. 2, the Exchange extends the proposed trading hours for options on the Index from 3:10 p.m., Chicago time, to 3:15 p.m., Chicago time. *See* Letter from Eileen Smith, Director, Product Development, Research Department, CBOE, to Brad Ritter, Senior Counsel, OMS, Division, Commission, dated June 13, 1995 (''Amendment No. 2'').

[6] The components of the Index are: Argentina Fund Inc.; Telefonica de Argentina S.A.; YPF Sociedad Anonima S.A.; Aracruz Celulose S.A.; Brazil Fund, Inc.; Brazilian Equity Fund, Inc.; Banco Osorno Y La Union; Compania de Telefonos de Chile; Empresa Nacional Electricidad S.A.; Empresas La Moderna S.A. de C.V.; Grupo Tribasa S.A. de C.V.; Coca Cola Femsa S.A.; Telefonos de Mexico S.A.; Grupo Televisa S.A.; and Vitro Sociedad Anonima.

[7] LEAPS is an acronym for Long-Term Equity Anticipation Securities. LEAPS are long-term index option series that expire from 12 to 60 months from their date of issuance. *See* CBOE Rule 24.9(b)(1).

[8] According to the CBOE, the Latin 15 Index represents a segment of the U.S. equity market that is not currently represented in the derivative markets and as such, the CBOE concludes, should offer investors a low-cost means of achieving diversification of their portfolios toward or away from Latin American market securities.

As of the close of trading on June 1, 1995, the Index was valued at 131.92. As of the close of trading on March 14, 1995, the market capitalizations of the components comprising the Index ranged in capitalization from a low of $77.17 million to a high of $10.58 billion. The total capitalization on that date was $38.77 billion; the mean capitalization was $2.58 billion; and the median capitalization was $812.50 million. The largest component accounted for 11.67% of the total weight of the Index, and the five largest components accounted for 46.67% of the total weight of the Index. On that same date, the smallest component accounted for 5.00% of the total weight of the Index. The average trading volume of the components of the Index, for the period from September 1, 1994, through February 28, 1995, ranged from a high of 5.78 million shares per day to a low of 52,579 shares per day.

C. Maintenance

The Index will be maintained by the CBOE. The CBOE may change the composition of the Index at any time, subject to compliance with the maintenance criteria discussed below, to reflect the conditions in the Latin American securities markets. If it becomes necessary to replace a component of the Index, the Exchange represents that every effort will be made to add only replacement securities (*i.e.*, ADRs, ADSs, and closed-end country funds) that preserve the character of the Index. Moreover, replacement securities must be listed on either the American Stock Exchange (''Amex'') or the NYSE, or must be Nasdaq National Market (''Nasdaq/NM'') securities.[9] In considering securities to be added to the Index, the CBOE will take into account the capitalization, liquidity, volatility, and the name recognition of the particular securities. Further, a component of the Index may be replaced in the event of certain events, such as a merger, consolidation, dissolution, or liquidation, or a change in the investment objectives of a country fund component.

The Exchange will most likely maintain 15 components in the Index.[10] In addition, in choosing securities as replacements for or additions to the Index, the CBOE will not make a composition change that would result in less than 85% of the weight of the Index or 80% of the number of components in the Index satisfying the listing criteria for standardized options trading set forth in CBOE Rule 5.3[11] (for securities that are not then the subject of standardized options trading) and CBOE Rule 5.4[12] (for securities that are then the subject of standardized options trading).[13] Additionally, at least twice each year, the CBOE will review the Index and apply these same standards to ensure that not less than 85% of the weight of the Index and 80% of the number of securities represented in the Index continue to satisfy the criteria for standardized options trading set forth in CBOE Rule 5.3 (for securities that are not then the subject of standardized options trading) and CBOE Rule 5.4 (for securities that are then the subject of standardized options trading).[14]

Moreover, at least twice each year, based on the most recent Commission filings by the closed-end funds represented in the Index, the CBOE will review the holdings of each of the closed-end funds to determine whether: (1) Any security that is not eligible for standardized options trading and that is held by one or more closed-end funds represented in the Index accounts, in aggregate, for more than 5% of the weight of the Index; or (2) securities from any one country that are not eligible for standardized options trading and that are held by one or more closed-end funds represented in the Index account, in aggregate, for more than 25% of the weight of the Index.

The CBOE will promptly notify the Commission staff at any time that the CBOE determines that the Index fails to satisfy any of the above maintenance criteria. Further, in such an event, the Exchange will not open for trading any additional series of Index options or Index LEAPS unless the Exchange determines that such failure is not significant, and the Commission staff affirmatively concurs in that determination, or unless the Commission specifically approves the continued listing of the class of Index options or Index LEAPS pursuant to a proposal filed in accordance with Section 19(b)(2) of the Act.[15]

D. Applicability of CBOE Rules Regarding Index Options

Except as modified by this order, the rules in Chapter XXIV of the CBOE Rules will be applicable to Index options and full-value and reduced-value Index LEAPS. In accordance with Chapter XXIV of CBOE's rules, the Index will be treated as a narrow-based index for purposes of applicable position and exercise limits, policies regarding trading halts and suspensions, and margin treatment.[16]

E. Calculation of the Index

The value of the CBOE Latin 15 Index is calculated using a ''modified equal-dollar-weighted'' formula, meaning that each of the components (fund shares or individual stocks) from each of the four countries is represented in approximately equal dollar amounts in relation to the other shares from that country. The countries in the index are then weighted, at the beginning of each quarter, as follows: Argentina—17.5%, Brazil—35%, Chile—17.5%, and Mexico—30%. The Exchange believes this methodology will present a fairer representation of the respective economies. The ''modified'' description refers to the fact that the dollar-weighting is performed on a country by country basis and not between shares of different countries.

The number of shares of each component security in the Index will remain fixed between quarterly reviews except in the event of certain types of corporate actions, such as the payment

[9] The Commission notes that the CBOE will be required to ensure that each component in the Index is a ''reported security'' as defined in Rule 11Aa3–1 of the Act.

[10] In no event will the CBOE decrease the number of components in the Index to less than 10. The Commission notes that if the CBOE determines to increase the number of components to greater than 20, the Exchange will be required to submit a rule filing pursuant to Section 19(b) of the Act.

[11] *See* Amendment No. 1, *supra* note 4. The CBOE's options listing standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements: (1) the public float must be at least 7,000,000 shares; (2) there must be a minimum of 2,000 stockholders; (3) trading volume in the U.S. must have been at least 2.4 million over the preceding twelve months; and (4) the U.S. market price must have been at least $7.50 for a majority of the business days during the preceding three calendar months. *See* CBOE Rule 5.3, Interpretation and Policy .01.

[12] *See* Amendment No. 1, *supra* note 4. The CBOE's options maintenance standards, which are uniform among the options exchanges, provide that a security underlying an option must, among other things, meet the following requirements: (1) the public float must be at least 6,300,000 shares; (2) there must be a minimum of 1,600 stockholders; (3) trading volume in the U.S. must have been at least 1.8 million over the preceding twelve months; and (4) the U.S. market price must have been at least $5.00 for a majority of the business days during the preceding six calendar months. *See* CBOE Rule 5.3, Interpretation and Policy .01.

[13] For these purposes, the closed-end fund components of the Index will be deemed to satisfy the listing criteria for standardized options trading if they satisfy the numerical requirements in CBOE Rule 5.3, Interpretation and Policy .01 (for closed-end country fund shares that are not then the subject of standardized options trading) and CBOE Rule 5.4, Interpretation and Policy .01 (for securities that are then the subject of standardized options trading). It is currently the case, therefore, that closed-end fund components of the Index that are not eligible for standardized options trading pursuant to the Commission's Country Fund Approval Order (*see infra* note 36) are counted as being options eligible for purposes of this 85%/80% requirement.

[14] *Id.*

[15] *See* Amendment No. 1, *supra* note 4.

[16] *See infra* Section II.H.

of a dividend (other than an ordinary cash dividend), stock distributions, stock splits, reverse stock splits, rights offerings, or a distribution, reorganization, recapitalization, or some such similar event with respect to an Index component. When the Index is adjusted between quarterly reviews, the number of shares of the relevant component in the portfolio will be adjusted, to the nearest whole share, to maintain the component's relative weight in the Index at the level immediately prior to the corporate action. In the event of a replacement, the average dollar value of the remaining portfolio components will be calculated and that amount invested in the new component stock, to the nearest whole share. In both cases, the divisor will be adjusted, if necessary, to ensure continuity in the value of the Index.[17]

The value of the Index will be calculated continuously and will be disseminated to the Options Price Reporting Authority (''OPRA'') every fifteen seconds by the CBOE, based on the last-sale prices of the securities comprising the Index.[18] OPRA, in turn, will disseminate the Index value to other financial vendors such as Reuters, Telerate, and Quotron.

The Index value for purposes of settling outstanding regular Index options and full-value and reduced-value Index LEAPS contracts upon expiration will be calculated based upon the regular way opening sale prices for each of the securities comprising the Index in their primary market on the last trading day prior to expiration.[19] In the event that a security traded as a Nasdaq/NM security is added to the Index, the first reported sale price for those shares will be used for determining a settlement value. Once the shares of all of the component securities represented in the Index have opened for trading, the value of the Index will be determined and that value will be used as the final settlement value for expiring Index options contracts, including full-value and reduced-value Index LEAPS. If any of the components of the Index do not open for trading on the last trading day before expiration, then the prior trading day's (*i.e.*, normally Thursday's) last sale price will be used in the Index value calculation. In this regard, before deciding to use Thursday's closing value for a security contained in the Index for purposes of determining the settlement value of the Index, the CBOE will wait until the end of the trading day on Expiration Friday (as defined herein).

F. Contract Specifications

The proposed options on the Index will be cash-settled, European-style options.[20] Standard options trading hours (8:30 a.m. to 3:15 p.m., Chicago time)[21] will apply to the contracts. The Index multiplier will be $100. The strike price interval will be $5.00 for full-value Index options with a duration of one year or less to expiration.[22] In addition, pursuant to CBOE Rule 24.9, there may be up to six expiration months outstanding at any given time. Specifically, there may be up to three expiration months from the March, June, September, and December cycle plus up to three additional near-term months so that the two nearest term months will always be available. As described in more detail below, the Exchange also intends to list several Index LEAPS series that expire from 12 to 60 months from the date of issuance.

Lastly, the options on the Index will expire on the Saturday following the third Friday of the expiration month (''Expiration Friday''). Accordingly, because options on the Index will settle based upon opening prices of the securities comprising the Index on the last trading day before expiration (normally Expiration Friday), the last trading day for an expiring Index option series will normally be the second to the last business day before expiration (normally a Thursday).

G. Listing of Long-Term Options on the Full-Value or Reduced-Value Latin 15 Index

The proposal provides that the Exchange may list long-term Index options that expire from 12 to 60 months from listing based on the full-value Index or a reduced-value Index that will be computed at one-tenth of the full-value Latin 15 Index. Existing Exchange requirements applicable to full-value Index options will apply to full-value and reduced-value Index LEAPS.[23] The current and closing Index value for reduced-value Latin 15 LEAPS will be computed by dividing the value of the full-value Index by 10 and rounding the resulting figure to the nearest one-hundredth. For example, an Index value of 125.46 would be 12.55 for the reduced-value Index LEAPS and an Index value of 125.44 would be 12.54 for the reduced-value Index LEAPS. The reduced-valued Index LEAPS will also be European-style and will be subject to the same rules that govern the trading of Index options, including sales practice rules, margin requirements and floor trading procedures. Pursuant to CBOE Rule 24.9, the strike price interval for the reduced-value Index LEAPS will be no less than $2.50 instead of $5.00.

H. Position and Exercise Limits, Margin Requirements, and Trading Halts

Exchange rules governing margin requirements,[24] position and exercise limits,[25] and trading halt procedures[26] that are applicable to the trading of narrow-based index options will apply to options traded on the Index. The proposal further provides that, for purposes of determining whether given positions in full-value and reduced-value Index LEAPS comply with applicable position and exercise limits, positions in full-value and reduced-value Index LEAPS will be aggregated with positions in the regular Index options. For these purposes, ten reduced-value contracts will equal one full-value contract.

I. Surveillance

Surveillance procedures currently used to monitor trading in each of the Exchange's other index options will also be used to monitor trading in regular Index options and in full-value and reduced-value Index LEAPS. These procedures include complete access to trading activity in the shares of the securities comprising the Index.

---

[17] Telephone conversation between Eileen Smith, Director, Product Development, Research Department, CBOE, and Brad Ritter, Senior Counsel, OMS, Division, Commission, on June 12, 1995.

[18] For purposes of dissemination of the Index value, if the shares of an ADR, ADS, or closed-end country fund included in the Index have not opened for trading, the CBOE will use the closing value of those shares on the prior trading day when calculating the value of the Index, until those shares open for trading.

[19] As noted above, each of the component securities currently trade on the NYSE. Moreover, the NYSE is the primary market for an overwhelming majority of the securities contained in the Index.

[20] A European-style option can be exercised only during a specified period before the option expires.

[21] *See* Amendment No. 2, *supra* note 5.

[22] For a description of the strike price intervals for reduced-value Index options and long-term Index options, *See infra*, Section II.G.

[23] *See* CBOE Rule 24.9(b).

[24] Pursuant to CBOE Rule 24.11, the margin requirements for the Index options will be: (1) for short options positions, 100% of the current market value of the options contract plus 20% of the underlying aggregate Index value, less any out-of-the-money amount, with a minimum requirement of the options premium plus 10% of the underlying Index value; and (2) for long options positions, 100% of the options premium paid.

[25] Pursuant to CBOE Rules 24.4A and 24.5, respectively, the position and exercise limits for the Index options will be 10,500 contracts, unless the Exchange determines, pursuant to such rules, that a lower limit is warranted.

[26] Pursuant to CBOE Rule 24.7, the trading on the CBOE of index options and Index LEAPS may be halted or suspended whenever trading in component securities whose weighted value represents more than 20% of the Index value are halted or suspended.

Further, the Intermarket Surveillance Group Agreement will be applicable to the trading of options on the Index.[27]

III. Findings and Conclusions

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange and, in particular, the requirements of Section 6(b)(5).[28] Specifically, the Commission finds that the trading of Latin 15 Index options, including full-value and reduced-value Index LEAPS, will serve to promote the public interest and help to remove impediments to a free and open securities market by providing investors with a means of hedging exposure to market risk associated with emerging Latin American market securities.[29]

The trading of options on the Latin 15 Index, including full-value and reduced-value Index LEAPS, however, raises several issues related to index design, customer protection, surveillance, and market impact. The Commission believes, for the reasons discussed below, that the CBOE has adequately addressed these issues.

A. Index Design and Structure

In light of the number of component stocks and overall capitalization of the Latin 15 Index, the Commission finds that it is appropriate to treat the Latin 15 Index as a narrow-based index under CBOE rules for purposes of applicable position and exercise limits, trading halt and suspension procedures, and margin treatment.[30]

The commission also finds that the large capitalizations, liquid markets, and relative weightings of the individual securities comprising the Index minimize the potential for manipulation of the Index. First, the securities comprising the Index are actively traded, with an average daily trading volume for all components for the period from September 1, 1994 through February 28, 1995, of approximately 629,412 shares per day. Second, the market capitalizations of the components of the Index are large, ranging from a high of $10.58 billion to a low of $77.17 million as of March 14, 1995, with the mean and median being $2.58 billion and $812.50 million, respectively. Third, although the Index is composed of only 15 securities, no particular component security or group of securities dominates the Index. Specifically, as of March 14, 1995, no component security contained in the Index accounted for more than 11.67% of the Index's total value and the five highest weighted securities in the Index accounted for 46.67% of the Index's value.

Fourth, the proposed maintenance criteria will serve to ensure that: (1) the Index remains composed substantially of liquid, highly capitalized securities; and (2) the Index is not dominated by any one security that does not satisfy the Exchange's options listing criteria, any non-options eligible security held by one or more of the country funds represented in the Index, or non-options eligible securities from any one country held by one or more of the country funds represented in the Index. Specifically, in considering changes to the composition of the Index, 85% of the weight of the Index and 80% of the number of components in the Index must comply with the listing criteria for standardized options trading set forth in CBOE Rule 5.3 (for securities that are not then the subject of standardized options trading) and CBOE Rule 5.4 (for securities that are then the subject of standardized options trading).[31] Additionally, the CBOE is required to review the composition of the Index at least semiannually to ensure that the Index continues to meet this 85%/80% criterion.

Moreover, at least twice each year, based on the most recent Commission filings by the closed-end funds represented in the Index, the CBOE will review the holdings of each of the closed-end funds to determine whether: (1) Any security that is not eligible for standardized options trading and that is held by one or more country funds represented in the Index accounts, in aggregate, for more than 5% of the weight of the Index; or (2) securities from any one country that are not eligible for standardized options trading and that are held by one or more country funds represented in the Index account, in aggregate, for more than 25% of the weight of the Index. These maintenance standards will ensure that a non-options eligible security or group of such securities from a foreign country where the CBOE does not have a comprehensive surveillance sharing agreement will not account for a significant percentage of the weight of the Index.

The CBOE will promptly notify the Commission staff at any time that the CBOE determines that the Index fails to satisfy any of the above maintenance criteria. Further, in such an event, the Exchange will not open for trading any additional series of Index options or Index LEAPS unless the Exchange determines that such failure is not significant, and the Commission staff affirmatively concurs in that determination, or unless the Commission specifically approves the continued listing of that class of Index options or Index LEAPS pursuant to a proposal filed in accordance with Section 19(b) of the Act.[32]

For the above reasons, the Commission believes that these criteria minimize the potential for manipulation of the Index and eliminate domination concerns.

B. Customer Protection

The Commission believes that a regulatory system designed to protect public customers must be in place before the trading of sophisticated

[27] The Intermarket Surveillance Group (''ISG'') was formed on July 14, 1983 to, among other things, coordinate more effectively surveillance and investigative information sharing arrangements in the stock and options markets. *See* Intermarket Surveillance Group Agreement, July 14, 1983. The most recent amendment to the ISG Agreement, which incorporates the original agreement and all amendments made thereafter, was signed by ISG members on January 29, 1990. *See* Second Amendment to the Intermarket Surveillance Group Agreement, January 29, 1990. The members of the ISG are: the Amex; the Boston Stock Exchange, Inc.; the CBOE; the Chicago Stock Exchange, Inc.; the National Association of Securities Dealers, Inc. (''NASD''); the NYSE; the Pacific Stock Exchange, Inc.; and the Philadelphia Stock Exchange, Inc. Because of potential opportunities for trading abuses involving stock index futures, stock options, and the underlying stock and the need for greater sharing of surveillance information for these potential intermarket trading abuses, the major stock index futures exchanges (*e.g.*, the Chicago Mercantile Exchange and the Chicago Board of Trade) joined the ISG as affiliate members in 1990.

[28] 15 U.S.C. § 78f(b)(5) (1988).

[29] Pursuant to Section 6(b)(5) of the Act, the Commission must predicate approval of any new option proposal upon a finding that the introduction of such new derivative instrument is in the public interest. Such a finding would be difficult for a derivative instrument that served no hedging or other economic function because any benefits that might be derived by market participants likely would be outweighed by the potential for manipulation, diminished public confidence in the integrity of the markets, and other valid regulatory concerns. In this regard, the trading of listed Index options and full-value and reduced-value Index LEAPS will provide investors with a hedging vehicle that should reflect the overall movement of Latin American market securities.

[30] The reduced-value Latin 15 Index, which consists of the same component mutual fund components as the Index and is calculated by dividing the Index value by ten, is identical to the Latin 15 Index.

[31] *See supra* note 13. Additionally, the securities contained in the Index must be ''reported'' securities and must be traded on the Amex or the NYSE or must be Nasdaq/NM securities. The CBOE is also limited in its ability to change the number of components in the Index without having to obtain Commission approval. *See supra* notes 9 and 10.

[32] *See* Amendment No. 1, *supra* note 4.

financial instruments, such as Latin 15 Index options, including full-value and reduced-value Latin 15 LEAPS, can commence on a national securities exchange. The Commission notes that the trading of standardized exchange-traded options occurs in an environment that is designed to ensure, among other things, that: (1) the special risks of options are disclosed to public customers; (2) only investors capable of evaluating and bearing the risks of options trading are engaged in such trading; and (3) special compliance procedures are applicable to options accounts. Accordingly, because the Index options and Index LEAPS will be subject to the same regulatory regime as the other standardized index options currently traded on the CBOE, the Commission believes that adequate safeguards are in place to ensure the protection of investors in Latin 15 Index options and full-value and reduced-value Latin 15 Index LEAPS.

C. Surveillance

The Commission believes that a surveillance sharing agreement between an exchange proposing to list a stock index derivative product and the exchange(s) trading the stocks underlying the derivative product is an important measure for surveillance of the derivative and underlying securities markets. Such agreements ensure the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the stock index product less readily susceptible to manipulation.[33] In this regard, the Commission notes that the NYSE, which currently is the primary market for the vast majority of the Index's component securities, is a member of the ISG.[34] The Commission believes that this arrangement ensures the availability of information necessary to detect and deter potential manipulations and other trading abuses, thereby making the Index options and full-value and reduced-value Index LEAPS less readily susceptible to manipulation.[35]

The Commission notes that the shares of the three closed-end country funds contained in the Index are not eligible for standardized options trading predominantly as a result of the lack of relevant market information sharing agreements between the CBOE and the home markets of the securities held by the funds.[36] For several reasons, however, the Commission believes that including these closed-end country funds in the Index is appropriate. First, the NYSE is the primary market for each of the closed-end fund components in the Index. As a result, as noted above, the CBOE can obtain information regarding the trading of the closed-end fund securities through the ISG.[37] Second, the maintenance criteria discussed above ensure, among other things, (1) that the Index will not become a surrogate for trading options on either the closed-end country funds represented in the Index or individual Latin American market securities held by those component country funds for which standardized options could not otherwise be traded, and (2) minimize the potential for manipulation of the value of the Index.[38] The Commission also notes that these maintenance criteria ensure that if additional closed-end funds are added to the Index, the Index will be subject to the same standards that the Commission approved for the Exchange's Emerging Markets Index and the Emerging Asian Markets Index, both of which are composed solely of closed-end funds.[39]

Finally, in contrast to other foreign securities products, international closed-end country funds hold portfolios of securities chosen by portfolio managers.[40] Although the composition of the portfolio of each country fund represented in the Index is published on a semiannual basis, the securities held by each country fund represented in the Index can be changed at any time at the discretion of the portfolio managers, as long as their investment decisions are consistent with the stated investment objectives and policies of the particular closed-end fund. For these reasons, the Commission believes that it generally would be difficult for someone to use options on the Index to attempt a manipulation of the market for any particular closed-end country fund represented in the Index or to attempt a manipulation of the Index through a manipulation of the shares of one or more of the closed-end country funds contained in the Index.

The Commission notes that generally the only people who could attempt such a manipulation would be people who have access to ''inside'' information about the composition of the portfolio of a closed-end fund and the trading activities of the country fund's portfolio manager.[41] The Investment Advisers Act of 1940 (''Advisers Act''),[42] and the rules promulgated thereunder, contain provisions designed to detect and deter certain advisory employees and affiliates from trading in any securities based on ''inside'' information about the investment decisions of a closed-end fund. Rule 204–2(a)(12) under the Advisers Act requires an investment adviser to make and keep accurate records of every transaction in a security in which the investment advisor or any advisory representative has a beneficial interest. Accordingly, the Commission believes that the Advisers Act gives it the authority to review the trading activities of anyone who is likely to have access to the information necessary to use options on the Index to attempt a manipulation of the relevant markets.

D. Market Impact

The Commission believes that the listing and trading on the CBOE of Latin 15 Index options, including full-value and reduced-value Index LEAPS, will not adversely impact the markets for the securities contained in the Index.[43] First, because of the ''modified equal-dollar-weighting'' formula described above, no one security or group of securities represented in the Index will dominate the weight of the Index immediately following a quarterly rebalancing. Second, the maintenance criteria for the Index ensure that: (1) The Index will be substantially comprised of securities that satisfy the Exchange's

[33] *See* Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45849 (October 5, 1992).

[34] *See supra* note 27.

[34] *See, e.q.,* Securities Exchange Act Release No. 31243 (September 28, 1992), 57 FR 45849 (October 5, 1992) (order approving the listing of index options and index LEAPS on the CBOE Biotech Index).

[36] Options on the securities issued by international funds are eligible for standardized options trading where those securities meet or exceed the Exchange's established uniform options listing standards (*see supra* notes 10 and 11) and (1) the Exchange has a market information sharing agreement with the primary home exchange on which each of the foreign securities comprising the fund's portfolio trade, (2) the fund is classified as a diversified fund, as that term is defined by Section 5(b) of the Investment Company Act, 15 U.S.C. § 80a–5(b), and the fund's portfolio is composed of securities from five or more countries, or (3) the listing of a particular international fund option is specifically approved by the Commission. *See* Securities Exchange Act Release No. 33068 (October 19, 1993), 58 FR 55093 (October 25, 1993) (''Country Fund Approval Order'').

[37] *See supra* note 27.

[38] *See supra* Section III.A.

[39] *See* Securities Exchange Act Release Nos. 35303 (January 31, 1995), 60 FR 7607, (February 8, 1995) (approval of CBOE Emerging Markets Index), and 35304 (January 31, 1995), 60 FR 7601, (February 8, 1995) (approval of CBOE Emerging Asian Markets Index).

[40] *See* Country Fund Approval Order, *supra* note 36.

[41] *Id.*

[42] 15 U.S.C. 80b–1 *et. seq.* (1988).

[43] In addition, the CBOE has represented that the CBOE and the OPRA have the necessary systems capacity to support those new series of index options that would result from the introduction of Index options and Index LEAPS. *See* Memorandum from Joe Corrigan, Executive Director, OPRA, to Eileen Smith, Director, Product Development, Research Department, CBOE, dated March 17, 1995.

listing standards for standardized options trading; and (2) individual securities that are not options eligible that are held by one or more of the country funds represented in the Index and non-options eligible securities from individual countries represented by those holdings will not dominate the Index.[44] Third, because the securities comprising the Index must be ''reported securities'' as defined in Rule 11Aa3–1 of the Act, the components of the Index generally will be actively-traded and highly-capitalized. Fourth, the 10,500 contract position and exercise limits applicable to Index options and Index LEAPS will serve to minimize potential manipulation and market impact concerns.

Lastly, the Commission believes that settling expiring Latin 15 Index options, including full-value and reduced-value Index LEAPS, based on the opening prices of the component securities is consistent with the Act. As noted in other contexts, valuing options for exercise settlement on expiration based on opening prices rather than closing prices may help reduce adverse effects on markets for the closed-end fund securities underlying options on the Index.[45]

The Commission finds good cause for approving Amendment Nos. 1 and 2 to the proposal prior to the thirtieth day after the date of publication of notice of filing thereof in the **Federal Register**. Specifically, Amendment No. 1 provides objective maintenance criteria which, for the reasons stated above, minimize the potential for manipulation of the Index and the securities comprising the Index. Further, as discussed above, the Commission believes that these maintenance criteria significantly strengthen the customer protection and surveillance aspects of the proposal, as originally proposed.[46]

Amendment No. 2 merely extends the proposed trading hours for options on the Index by five minutes (*i.e.*, until 3:15 p.m., Chicago time). The Commission notes that this is consistent with CBOE Rule 24.6 whereby trading until 3:10 p.m. is the exception to the general rule that index options traded at the CBOE trade until 3:15 p.m., Chicago time.

[44] *See supra* Section III.A.

[45] *See* Securities Exchange Act Release No. 30944 (July 21, 1992), 57 FR 33376 (July 28, 1992). The Commission notes that prior to listing Index options or Index LEAPS (or any other product based on the Index), the CBOE will be required to review the Index and its components based on the then most recent semiannual reports filed with the Commission by each of the closed-end funds represented in the Index to ensure that the listing criteria discussed above are satisfied.

[46] *See supra* note III.A.

Based on the above, the Commission finds good cause for approving Amendment Nos. 1 and 2 to the proposed rule change on an accelerated basis and believes that the proposal, as amended, is consistent with Sections 6(b)(5) and 19(b)(2) of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment Nos. 1 and 2. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying at the Commission's Public Reference Section, 450 Fifth Street, N.W., Washington, D.C. Copies of such filing will also be available for inspection and copying at the principal office of the CBOE. All submissions should refer to the File Number SR–CBOE–95–20 and should be submitted by August 2, 1995.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,[47] that the proposed rule change (SR–CBOE–95–20), as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[48]

Jonathan G. Katz,

Secretary.

[FR Doc. 95–16996 Filed 7–11–95; 8:45 am]

BILLING CODE 8010–01–M

[47] 15 U.S.C. 78s(b)(2) (1988).

[48] 17 CFR 200.30–3(a)(12) (1994).

[Release No. 34–35939; File No. SR–MSRB–95–10]

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Municipal Securities Rulemaking Board Relating to an Interpretation of Board rule G–11, on Sales of New Issue Municipal Securities During the Underwriting Period

July 5, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on June 14, 1995, the Municipal Securities Rulemaking Board (''Board'' or ''MSRB'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') a proposed rule change (File No. SR–MSRB–95–10). The proposed rule change is described in Items, I, II, and III below, which Items have been prepared by the Board. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The MSRB is filing an interpretation of Board rule G–11, on sales of new issue municipal securities (hereafter referred to as ''the proposed rule change'').

II. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

In its filing with the Commission, the Board included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Board has prepared summaries, set forth in Sections (A), (B), and (C) below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

The Board received an inquiry concerning situations where senior syndicate managers charge bookrunning expenses or management fees to syndicate members on a per-bond basis. The Board believes that discretionary fees for clearance costs and management fees may be expressed as a per bond charge. Under rule G–11, however, these expenses must be disclosed to members prior to the submission of a bid or prior to the extension of a purchase contract with the issuer; for example, in the Agreement Among Underwriters. The rule also provides that the senior syndicate manager must provide an itemized statement to syndicate members at or before final settlement of the syndicate account setting forth a detailed breakdown of actual expenses incurred on behalf of the syndicate, such as advertising, printing, legal, computer services, etc. The Board believes a per-bond fee creates the appearance that it is not an actual expense related to and incurred on behalf of the syndicate. The interpretation urges senior syndicate